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1987-1988
1987-1988
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1987-1988



Société
des loteries
et courses
du Québec

Eighteenth
annual report
1987-1988



loto-québec

On the Financial Sheet of External Activities

- The awarding of contracts totalling some \$40 million for the purchase of new computers and a refurbished terminal network.
- The acquisition of a site, from the City of Montreal, on which will be erected a new data centre.

- The placing of some 2,090 orders for goods and services totalling \$51,523,000.00.

Based on a sample period extending from November 1987 to March 1988, the distribution of orders, expressed as a percentage of the total, was as follows:

Québécois content: 81%
Canadian content: 9%
Foreign content: 10%

- \$21,338,000.00 for the purchase of lottery tickets and terminal accessories from contracted suppliers.

- \$12,660,000.00 to advertising agencies for the production and air-time of publicity campaigns and promotional ads.

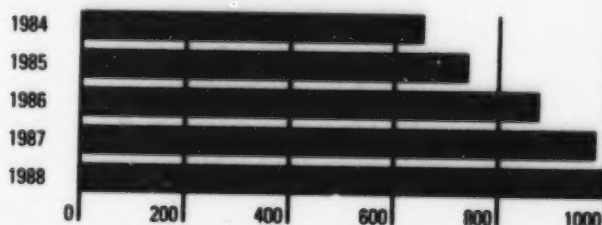
- \$4,300,000.00 for the production and broadcast of the draws and for the publication of the results in newspapers and other media.

On the Financial Balance Sheet...

<i>(In Thousands of Dollars)</i>	1987-1988	1986-1987	Increase (%)
Sales	1,036,491	998,040	3.8
Prizes	477,784	460,311	3.8
Net income before special contributions and commissions	397,571	380,897	4.3
Discounts to retailers	54,777	53,047	3.3
Stipends, salaries and social benefits paid to personnel	26,495	26,887	(1.5)

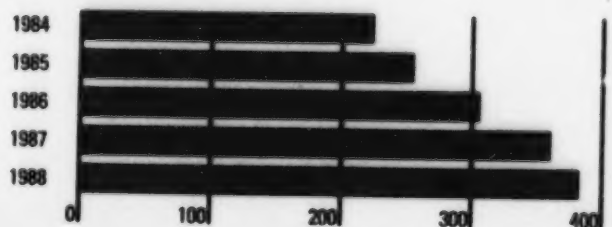
Sales Growth

(in thousands of dollars)



Net Income Growth

(in thousands of dollars)





On the Social Balance Sheet...

- Some \$30,000.00 committed to the publication of art books, through the Loto-Québec Collection, including grants of \$18,000.00 to the artists.
- Approximately \$100,000.00 committed to the acquisition of works of art by Québec artists.
- More than \$600,000.00 in sponsorships awarded to organizations conducting foot races, cycling tours and folk festivals which promote Québec products or resources.
- Some \$100,000.00 awarded in study grants for university-level research related to the field of games.

On the Balance Sheet of Quality of Life and Professional Development

- The introduction of pilot programs, in collaboration with Le Syndicat des travailleurs et travailleuses de Loto-Québec, for compressed or variable work-schedules, with a view for a permanent implementation.
- The integration into Loto-Québec's policies of the directives issued by the Ministère de l'Environnement related to the protection of non-smokers.
- A permanent access committee to deal with equality of employment for women and the implementation of specific and pertinent guidelines.
- A continued policy concerning the payment of dues by some Loto-Québec employees to professional or para-professional organisms or associations which are related to their functions.
- A permanent program to provide financial support for the professional development of employees.
- A permanent program of retirement counselling.
- A permanent financial support program for employee participation in sporting activities, socio-cultural endeavours or physical fitness programs.
- A permanent employee program of "adoption" of works of art from the Loto-Québec Collection in an effort to enhance the physical surroundings in offices.

On the Balance Sheet of Human Resources

The personnel of Loto-Québec constitutes the very foundation of its success. As at March 31, the Société's personnel numbered 639 employees. The following charts best describe and define their distribution.

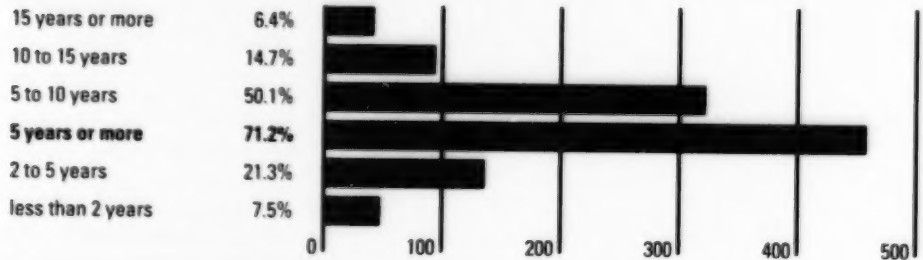
Personnel Seniority

The degree of employment seniority attained by the personnel of Loto-Québec, a corporation created only 18 years ago, attests to the attachment formed by the employees for the Société.

Personnel



Personnel Seniority



Distribution of Personnel by V.-P. or Division (%)

	Non-unionized Personnel	Unionized Professionals	Other Unionized	Male	Female
General Management and Vice-Presidency for Corporate Affairs	55.3	10.5	34.2	42.1	57.9
Vice-Presidency, Lotteries					
Finance Division	22.7	11.8	65.5	44.5	55.5
Marketing Division	28.0	26.0	46.0	51.0	49.0
Sales Division	28.4	5.0	66.6	63.1	36.9
Games-Network Division	23.0	18.7	58.3	60.0	40.0
Vice-Presidency, Systems	18.1	35.6	46.3	59.0	41.0
Vice-Presidency, New Markets	29.4	53.0	17.6	71.0	29.0
Directorate of Human Resources	63.3	0	36.7	26.7	73.3
Total (Number)	176	107	356	352	287
% of Loto-Québec Personnel	27.5	16.8	55.7	55.1	44.9

President's Report

First, I would like to congratulate each and every member of our personnel, in all sectors of the Société who have all clearly demonstrated their sense of responsibility and professionalism and enabled us to present this most positive and promising report of the past fiscal year which began in the midst of a labour conflict.

Our personnel constitutes the very foundation of our success. From the very signing of a collective agreement, and at a time when the Société's activities might still have been disrupted for a long period, we set in motion, under new working conditions, an almost immediate return towards attaining our objectives.

To every member of our personnel, I reiterate the assurance that Management will continue to make every effort to ensure a respect for the letter and the spirit of our collective agreements.

During the past fiscal year, our shareholder, the Québec Minister of Finance, appointed several new members to our Board of Directors.

Several of the former members were serving their second or third terms; all generously accepted to sit even beyond their term, in order to ensure a propitious continuity in the activities of the Société. I salute and thank those members who, over the last few years, have guided us along a path of continuous growth. The unconditional support extended by Madame Marthe Bouchard-Hatch and by Mssrs. Jacques Desmeules, Reynald Brisson and Denis Vandry proved to be invaluable. Mr. Vandry, incidentally, remains in his post as Vice-President, General Management, where he will continue to make his contribution to the Société.

As for the new members of the Board who joined Madame Francine Harel Giasson, Mssrs. Benoit G. Côté, Socrates Goulakos, Bernard Grégoire, Marcel Jobin and Donald W. McNaughton, it must be noted that through their immediate involvement, their constructive support and enlightened expertise, they contributed very actively to

our success in achieving the objectives for the past fiscal year. I am very thankful to them for their efforts.

The Board of Directors held ten meetings, while the Audit Committee met on five occasions.

During the year under review, and for the first time in our existence, sales have surpassed the billion dollar mark, reaching a level 3.8% higher than the preceding fiscal year. Our net income rose to \$380.1 million, an increase of \$20 million, or 6%, over the preceding fiscal year. We paid out a record \$477.8 million in prizes, while \$54.8 million were remitted as discounts to the retailers distributing our products.

If these figures seem eloquent, more representative still of the continuous growth of Loto-Québec are the comparative results for the last few years. Thus, from 1983 to the present, our business volume has increased by 91.4%, our net income by 132% (from \$163 million to \$380 million), while our administrative costs have only risen by 24%. Over the last decade, our sales and net income have more than quadrupled.

Later on in this report, each Vice-Presidency and Division will present an outline of their chief accomplishments. They have all been called upon to actively participate in certain projects, summarized below, which will determine our orientation for the next few years.

Last December, Loto-Québec was authorized by the Québec Government to negotiate and conclude framework agreements for the replacement of its computer system and for the purchase of hardware and peripherals for a new data processing centre.

Following a call for public tenders, the proposals submitted by various suppliers were examined and evaluated by a committee consisting of members from the Ministries of Finance, Industry and Commerce, Communications and of representatives from Loto-Québec. Subsequently, an agreement for the supply of hardware and software in the order of seven million dollars was concluded with the Montréal firm of Yvon Boulanger Ltd., while the firm of General Instruments of

Canada was awarded a contract of twenty-six million dollars to renovate the bank of games-terminals which will be manufactured by Comterm of Pointe-Claire.

These projects, financed entirely by Loto-Québec, form part of a global process of equipment modernization aimed at remaining at the technological forefront to serve our clients. This avant-garde strategy will enable us to reduce our computer costs, in relation to our volume of business, from the 4.1% they represented in 1983 to about 2.5% in 1989.

A parallel project planned for the next fiscal year is the construction of a new, autonomous data processing centre on a site acquired from the City of Montreal and located in the East end industrial park of the City.

An alleged fraud or alleged attempted fraud by one or several of our employees, uncovered last January, could have had a disastrous effect on all our activities. The pan-Canadian product in question, the Provincial, was immediately removed from the market throughout Canada and severe measures were taken by Loto-Québec. As unequivocal testimony to the high reputation and prestige enjoyed by Loto-Québec, it must be noted that at no time was any doubt cast on the integrity of the Société. The product, rendered vulnerable by certain manufacturing defects, has since been re-launched with renewed success.

A reputed leader on the international level, Loto-Québec hosted last June the Annual Meeting of the North-American Association of State and Provincial Lotteries. Loto-Québec also serves as the Head Office for the International Association of State Lotteries, seconding my role as its Secretary General.

(in millions of dollars)												82-83 vs 87-88 (%)
	82-83	83-84	%	84-85	%	85-86	%	86-87	%	87-88	%	
Sales	541.4	662.2	22	741.1	12	883.1	19	998.0	13	1,036.5	3.8	91
Net Income	163.4	223.1	36	252.9	13	302.7	20	360.4	19	380.0	5	132
Costs	70.6	71.2	0.8	79.9	12	85.6	7	87.2	2	87.4	0.2	24

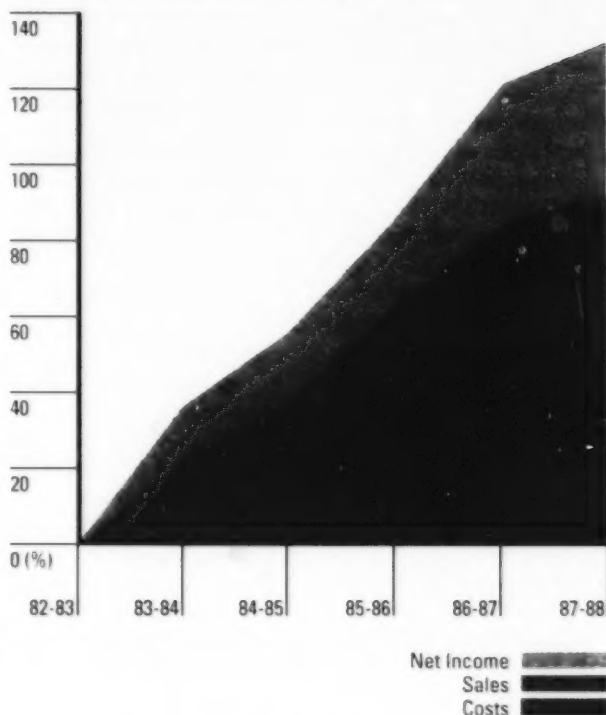
As is stated in the report of the Vice-Presidency, Lotteries, our strategy during the next fiscal year will aim at increasing our sales and net earnings at a faster rate than that of inflation. Several products will be revitalized and Super Loto will be replaced by a top-of-the-line product, Special 88. Gradually our outdated terminals will be replaced with the latest equipment enabling our network to double its capacity and respond not only to the needs of new computerized games but also to the expectations of our clientele. A new data processing centre will also be completed.

The fiscal year just ended enabled us to showcase the collective solidarity of our personnel and the high reputation of our Société. We are forecasting another year of rapid growth, a year in which we will remain attuned to the ever-changing modern world. Loto-Québec must remain alert to the expectations of our justifiably demanding clientele, as we serve the population whose values and culture we reflect.

David Clark

David Clark

The growth of Net Income in relation to Sales and Administrative Costs



(in millions of dollars)	1977-78	1982-83	1987-88	Increase (%)	
				5 yrs	10 yrs
Sales	202	541	1,036	91.4	413
Prizes	89	253	478	88.9	437
Net Income	73	163	380	132	420

Highlights Vice-Presidency, General Management

In addition to its functions as an advisory body to Management, this Vice-Presidency was entrusted, during the year under review, with the mandate of managing the dossier for the new autonomous data processing centre.

A new main data processing centre will be erected on rue Pierre-de-Coubertin, in East Montréal.

Following a call for public tenders, the firm of Roy L.G.L. Ltée has been retained as Project Manager to help the Société in the completion of this centre. The selection of professionals will be made early in the next fiscal year.

Construction work on the centre should begin in August of 1988.

General Management

Office of the President

This past year, emphasis was placed on the analysis and development of strategic dossiers relevant to the corporate evolution of Loto-Québec (An international Lottery Project, membership of the International Association of State Lotteries, etc.) as well as on managerial dossiers such as corporate indicators and new approaches in corporate management.

The Service of Organizational Development continued to execute its mandate through their programs for the professional development for Cadres and the evaluation of managerial potential, placing great emphasis on team-management increased efficiency and proposing an up-dated evaluation of the potential of its managers.

The chief function of the Office of the President is to provide the President and Director-General with a privileged assistance in various strategic dossiers and to lend its full support to the administrative units of the Société in their managerial agenda.

Internal Auditing

During the past fiscal year, the Directorate for Internal Auditing has implemented specific audit programs under the mandate of the Audit Committee. These programs focused on the integrity and security of operations, with particular relevance to the system for ticket distribution and the improvement of management systems.



During the year under review, the Vice-Presidency for Corporate Affairs was called upon to play a major role in several programs considered crucial to the evolution of the Société.

Vice-Presidency, Corporate Affairs

In an effort to meet the particular needs of the newly appointed board members and provide them with efficient and appropriate assistance, the Administrative Secretariat revised its methods and procedures pertaining to documentation support for meetings of the Board of Directors.

A project of office automation is now in its development stage; it will assist the Secretariat, among other tasks, in preparing applications for governmental approval.

The Secretariat was also called upon to organize the preparation of a Loto-Québec report concerning the dossier of the Provincial, and to examine the policies and procedures in effect between Loto-Québec and the Interprovincial Lottery Corporation.

The Legal Service played an active role in a project dealing with the acquisition of new equipment and the data processing centre, undertook a revision of supply methods and proce-

dures and was the Loto-Québec representative within a group of legal advisers for Canadian lotteries.

The Documentation Centre has completed the installation of new computer software for managing its data bases and has revised its policies for information processing accordingly.

The Planning Service concentrated its efforts in the areas of customer services and efficient management of these services, the rationalization of equipment already in place and the elaboration of corporate plans designed to meet specific organizational needs, emphasizing throughout the need for planning initiatives on the part of Cadres.

Public Affairs

The Directorate for Public Affairs has implemented a two-pronged plan of action: the preservation of an image of international prestige and the involvement of the Société in the cultural and artistic life of Québec.

This Directorate assumed an active managerial role within the General

Secretariat of the International Association of State Lotteries (A.I.L.E.), particularly in the production of a new International Directory. It also completed production of a new video presentation: "Portrait of a Success Story", a document which sheds prestige on the Société, its accomplishments and its importance on the socio-economic chess-board of Québec.

The programs involving the Loto-Québec Art Collections have not only been maintained but have also been accentuated through an active collaboration with regional Culture Centres and through exhibitions aimed at promoting awareness and recognition for today's quebécois art in various regions of the Province.

The Directorate for Public Affairs acted as organizer for the Annual Meeting of the North-American Association of State and Provincial Lotteries (NASPL), held in Montréal from June 14 to 17 and attended by more than 700 delegates.

The Legal Service applied its resources to the transfer of the subsidiary SODIC QUÉBEC INC. to the Department of Agriculture, Fisheries and Food.

Vice-Presidency, New Markets

In the area of new games, a study of "Pull-Tab" lottery tickets carried out in Canada and the United States contributed to the introduction of the "Dollars Eclair" Lottery. Similarly, studies related to the games of Bingo could pave the way for other types of lotteries. Moreover, information pertaining to the various games environments – casino games, video games and other forms of wager – was brought up to date.

Efforts expended in the area of new means of distribution resulted in the implementation of a trial-test for automatic ticket dispensers in the Montreal region.

The Vice-Presidency for New Markets continued its research and development programs in the areas of new games and new methods of distribution. It also directed its efforts towards broadening its base of knowledge as it pertains to games of chance and money, especially lotteries.

Exploratory studies have been carried out on the feasibility of sales by telephone, video instant lotteries and the recording of lottery selections by means of cash registers.

Vice-Presidency, Systems

The technology and services provided by the Vice-Presidency for Systems constitutes an essential support for marketing and customer services.

In order to preserve the Société's strategic advantage in the area of product distribution, the evaluation and revision of factors relating to the operation of computerized games systems were completed.

Following a call for tenders and the selection of suppliers by an ad hoc committee, negotiations with the latter led to the signing of a contract for the installation of the equipment during the coming fiscal year.

The systems for games and those for management represent for the Société distinct and separate technological interests and conditions.

The future implications of the games environment on that of management having now been determined, the main focus of the 1988-1991 master plan will be directed towards those segments of computerization most pertinent to management systems.

Video systems were also explored: four amusement games on the Videoway system; plans for video broadcasting of the results of the draws.

The research department continued its studies on the various economic, social and psychological ramifications of gambling. For the third year in a row, grants and subsidies have been awarded for thematic research projects such as compulsive gambling, illegal betting and the attitudes and reactions that gambling elicits. Based on this research, a comprehensive market study was prepared.

The Research group was also involved in other corporate projects, including an international student training program, a project aimed at promoting the diversification of scientific and entrepreneurial careers among young Quebecers and various presentations at scientific conferences.

This Vice-Presidency also acted as foreman on behalf of the Société in dealing with the call for tenders and the subsequent selection of suppliers of new computers, new terminals and telecommunication systems.



The involvement of the Vice-Presidency for Systems was most predominant in the provision of new technological support systems for sales and customer services, such as lap-top computers, automatic ticket-dispensers and an automatic answering service for the verification of tickets.

A study concerning the replacement of our payroll and human resources systems was also undertaken in an effort to render them more flexible and better suited to our ever growing and ever-changing needs.

The analysis and development required for reconditioning the Loto-matique system were undertaken and will be completed during the coming year.

Various measures have been implemented to ensure the highest level of security and quality regarding the data systems: a process of systems approval prior to installation; security regulations for the micro-computer environment; a sensibilization program and information sessions for Loto-Québec personnel regarding computer security.

This concern for efficiency is also evident in the daily support provided to users, the launching of new products such as SELECT 42, the overall improvements in the performance level of the present on-line game systems and the revision of Loto-Québec manuals for organizational policies, procedures and methods.

Directorate of Human Resources

The Directorate of Human Resources has instituted mechanisms for the application of the Collective Agreements which the Société had concluded with the Syndicat des professionnelles et professionnels du Gouvernement du Québec on March 12 of the preceding fiscal year and with the Syndicat des travailleurs et travailleuses de Loto-Québec on May 25 of the present fiscal year.

A training and sensibilization program regarding new standards of working conditions has been carried out at all cadre and managerial levels with a view to optimizing and rationalizing the human resources available to the Société.

The Directorate has undertaken discussions with representatives from the Treasury Council in order to determine the level and method of remuneration for cadres and managers.

A full review of the evaluation process of cadres' productivity has been carried out, taking into consideration three factors, in addition to the established objectives: an assessment of administrative capabilities, a course of action to improve productivity and the gathering of information on the employee's career plans and degree of satisfaction at work.

The Directorate also pursued its efforts in the area of equality of employment taking concrete actions aimed at redressing the equilibrium in those positions where women are under-represented.

The Directorate played a significant role in matters of security, advising the Société on various preventive measures aimed at protecting the assets of Loto-Québec. The Directorate, in addition to sensitizing employees to preventive security, also increased its control over access to Loto-Québec installations.

As at March 31, 1988, the personnel of the Société numbered 639 employees.

Vice-Presidency, Lotteries

The Vice-Presidency for Lotteries groups four Divisions: Marketing, Games-Network Processing, Sales & Distribution and Finance & Material Resources.

Here are some of the more noteworthy highlights:

The fiscal year just ended has brought the Société to a turning point: more than ever, it is vitally important to fully evaluate market expectations, ensure its efficient penetration and, above all, promote the optimum management of all our lottery products.

- Marketing: development and introduction of instant games with a still higher performance level and the successful re-introduction of a passive lottery which had been losing ground.
- Games-Network Processing: a new record for uninterrupted service days was set in the Processing Centre.
- Sales & Distribution: a major restructuring of operations with two separate networks: representatives and wholesalers.
- Finance: implementation of an extensive program of economy and rationalization of expenses and a simplified revision of procedures concerning the establishment and management of budgets for the various cost centres.

The forecast objectives, threatened by a labour conflict which continued into the early months of the fiscal period, were nevertheless achieved. These results are due to the concerted team effort by all members of the Société.

Marketing

Sweeping changes, both in approach and product orientation, have been instituted during the past fiscal year.

Summarized below are some of the more noteworthy highlights in the areas of product development, market studies and product orientation:

- the development and pre-testing of several new lottery products (top-of-the-line, keno, spiel, national lotto);
- an adjustment to the instant game prize structure, providing added importance to intermediary prizes;
- the incorporation of the "Wheel of Fortune" concept and the addition of televised draws for instant lotteries;

Year after year, the Marketing Division must meet a major challenge: to ensure a net income growth superior to the rate of inflation.

- the introduction of a low-end scale product at \$0.50, intended in part for the financing of non-profit organizations;
- the completion of a tenth market penetration study on the profile and purchase habits of Québec consumers;
- incisive publicity campaigns centered on the brand image.

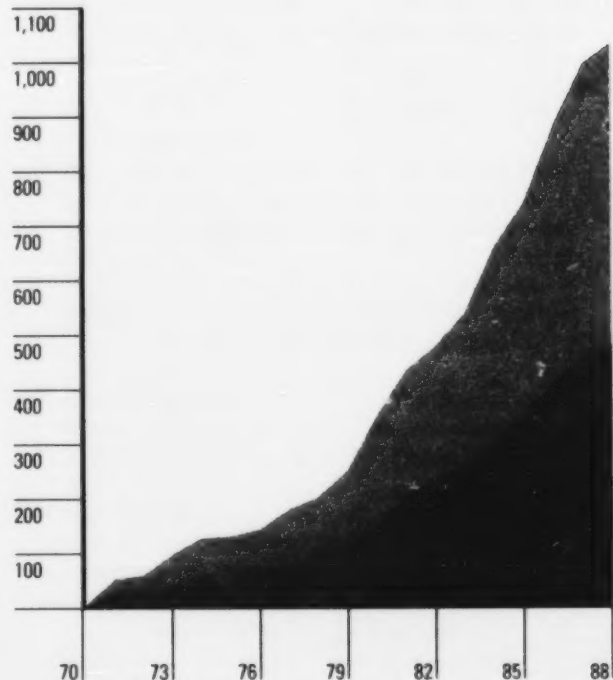
Loto-Québec's image has been greatly enhanced by several awards, including that of "Advertiser of the Year", following a province wide poll conducted by the Publicité-Club of Montreal.

In the area of Communications, relations with the press have been considerably involved, particularly during the period of labour conflict, the subsequent return to work and during the major incident which affected the Provincial and which required its removal from the market. New publications were produced, including a brochure intended for winners of large prizes.

Three principal objectives predominate the holding of draws: openness, security and credibility. A new parallel system for the verification of winning tickets has been implemented during the past fiscal year. The mandate of the firm Samson Bélair as external auditor was extended for one year, in accordance with an option clause stipulated in the contract between the two Sociétés.

Eighteen Years of Sustained Growth

(in millions)



Note:
1981; accounting
modification
for instant prizes

Sales
Prizes
Net Income

For the first time ever, sales figures have surpassed the billion dollar mark, reaching \$1,036 million, a 3.8% increase over the preceding fiscal year.

LOTTO 6/49 experienced a certain levelling off. However, a considerable jackpot accumulation at the end of the fiscal period, coupled with the elimination of the moderating factor (a mechanism which regulated the percentage of sales dollars reinjected into the 6/6 prize category, whenever the jackpot reached the \$7 million dollar mark), as well as a period of bonus prizes in November, when the minimum guaranteed jackpot for each draw was \$5 million have enabled sales figures to reach \$602.7 million, an increase of 1.6% over the preceding fiscal year.

The **6/36** was replaced in August by a new product: **Sélect 42**, a decision which yielded interesting results. On an annual basis, the increase amounted to 5.8%, with sales totalling \$87.6 million dollars.

La Quotidienne continued its growth of recent years with an increase of 9%.

The **Mini Loto** continued its marked decline of the preceding fiscal periods. This product is now in the process of being revised.

The **Inter Plus**, a hybrid product combining a passive lottery with an instant game, was introduced in October, 1987, yielding an increase of 25% compared to the former Inter Loto.

The **Instant Lotteries** have shattered the record set during the preceding fiscal year with sales of \$165.5 million, an increase of 24.8%. Eight lotteries were introduced during the year under review (six at \$1.00 and two at \$2.00). The "Wheel of Fortune" concept and dynamic designs are largely responsible for this success.

Finally, a new low-end scale product, **Dollars Éclair**, was marketed for a few months. Distributed by a mixed network of non-profit organizations and regular Loto-Québec retailers, this product is presently being revised.

The following chart outlines the performance of each product and its changes. Free tickets have been entered on the books, according to established standards in the field of lotteries.

The **Provincial** experienced good performance levels, especially during bonus prizes periods. It was removed from the market due to an incident which necessitated its revision and the implementation of stricter security measures. A revamped Provincial will be introduced at the beginning of fiscal 1988-1989.

The **Super Loto** continued its decline. This product will be withdrawn from the market in May 1988 to make place for a new top-of-the-line product: **Special 88**.

Sales by Product

<i>(in thousands of dollars)</i>	1987-88	1986-87	Evolution %
Passive Lotteries			
Mini Loto	41,189	56,810	(27.5)
Inter Loto	39,623	31,672	25.1
Provincial	39,608	43,608	(9.1)
Super Loto	31,459	39,069	(19.5)
Sub-Total	151,879	171,159	(11.3)
Semi-Active Lotteries			
6/36 and SÉLECT 42	87,573	82,769	5.8
La Quotidienne	19,975	18,249	9.5
Lotto 6/49	602,699	593,236	1.6
Instant Lotteries	165,521	132,627	24.8
Dollars Éclair	8,844	-	-
Sub-Total	884,612	826,881	7.0
Totals	1,036,491	998,040	3.8

Finance & Physical Resources

As soon as working conditions had returned to normal, the Division for Finance concentrated its efforts in the recovery of the financial data, which during the labour conflict had been entered manually or on micro-computers, and incorporating it into the corporate systems for financial information.

The Division for Finance & Physical Resources is responsible for the production of financial information, the proper evaluation and application of assets, the management of financial resources and the proper equilibrium between the available sources and the financial needs of the Société.

Through its Payment to Winners Section, the Finance Division paid out prizes to more than 225,800 winners, including 162,075 through various branches of La Banque Nationale. Moreover, 25,549 merchandise prizes were distributed as part of the Lottery Cadeau Surprise.

At that time, a revised budget was prepared and adopted, followed by the implementation of an austerity program covering the last five months of the financial period. This program resulted in a reduction of six million dollars in the operational costs of the Société.

In its advisory capacity, the Division also assigned one person to each cost centre in order to facilitate the task of those responsible for the preparation of budgetary provisions for fiscal 1988-1989.

The Supply Service proceeded to a call for public tenders for the partial replacement of present computer equipment and new games terminals and for the construction of a second games-processing centre.

The Supply Service actively participated in contractual negotiations with the suppliers.

Special attention was paid to the credit extended to retailers; the total expenditure in bad debts was only 0.006% of the total volume of business. In the management of the treasury, the daily average investment was \$15.5 million.

The Division has assigned a full-time employee to the ENJEU Project and a supervisory Cadre to carry out a special security evaluation.

Games-Network Processing

The Division of Games-Network Processing is responsible for the operation of the technological resources pertaining to terminal-generated sales of lotteries.

Although part of the bank of terminals needs to be replaced, the Division still recorded unprecedented performance levels.

The addition of 200 points of sale to the bank of terminals and that of 58 automatic dispensers was carried out smoothly.

The stability of the service, measured at the height of sales and already quoted at 98.95% for the preceding fiscal year, was increased to 99.48% of the projected sale time.

The Division was also actively involved in the ENJEU Project.

A record 164 consecutive days of uninterrupted service at the processing Central; seven months of 100% availability, including a period of four consecutive months; processing up to 5,200 transactions per minute at the biggest point of sales: these are three elements reflecting the quality of service provided to our clientele.

Sales and Distribution

In spite of the temporary withdrawal of some passive lotteries during the labour conflict, the Division of Sales & Distribution surpassed its objectives.

The network of sales and distribution was split into

two sections: representatives and wholesalers, while a promotion service was created.

Approximately 800 applications for a games terminal were evaluated according to the criteria of productivity and service to the clientele. 200 terminals were ultimately added to existing installations.

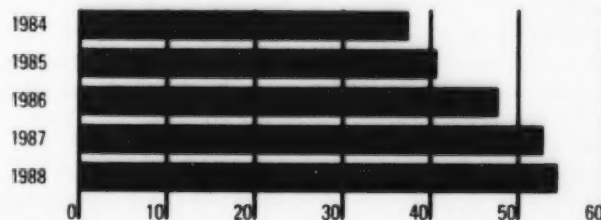
Several projects were also conducted during the fiscal year: Dollars Éclair, which offered non-profit organizations the opportunity to act as distributors; the installation of automatic lottery ticket dispensers in urban regions.

Some 11,854 retailers, including 4,309 equipped with a games terminal, are offering Loto-Québec products.

In 1987-1988 discounts to retailers reached \$54.8 million, as compared with \$53 million for the preceding fiscal year.

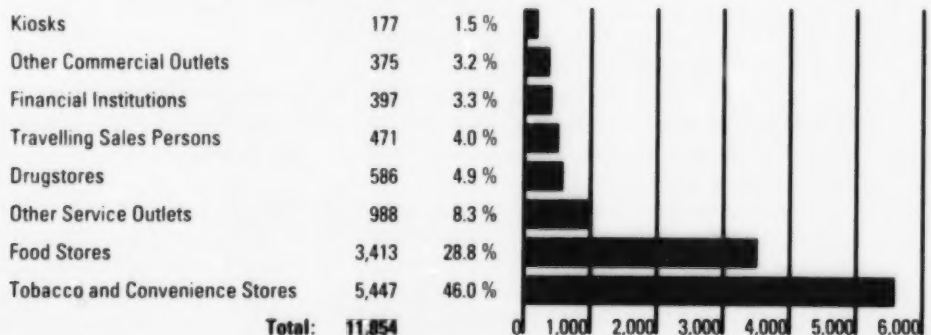
The relaunching of the MINI, the replacement of the 6/36 by SÉLECT 42 and that of the INTER by INTER PLUS constitute key elements in the promotional program.

Discounts to Retailers
(in thousands of dollars)



The discounts allotted to retailers are of 10% on MINI Loto sales and 5% on the sales of all other products. In addition to the discounts, retailers also receive a bonus of 1% on all prizes of \$1,000 or more.

Distribution according to Category of Business



Distribution according to Region

Office	Retailers	%	Terminals	Region (%)	Total (%)
Laval	1,366	11.5	535	39.2	12.4
Montréal West	1,499	12.6	690	46.0	16.0
Québec	1,966	16.6	614	31.2	14.3
Trois-Rivières	956	8.1	271	28.3	6.3
Sherbrooke	1,116	9.4	325	29.1	7.5
Chicoutimi	577	4.9	173	30.0	4.0
Rimouski	621	5.2	146	23.5	3.4
Montréal East	1,517	12.8	758	50.0	17.6
Montréal South	1,384	11.7	574	41.5	13.3
Hull	852	7.2	223	26.2	5.2
Total:	11,854		4,309		

Social Involvement

\$457,338 were returned in discounts and bonuses to non-profit organisations; \$451,685 were distributed in government contributions, according to policies.

Through financial assistance and provision of various services, the Loto-Québec sponsorship program forms part and parcel of a policy of active participation in family activities and popular events throughout Québec.

Lotomatique

Loto-Québec entrusts the sale of Lottery subscriptions to non-profit organizations. As at March 31, 1988, the Société numbered 443 accredited organizations, an increase of 54 associations over the preceding fiscal year.

The computerized system which supports the subscription program has been the subject of a study on its possible relocation to the Head Office.

Kiosks

The management of sales kiosks is also entrusted to Non-profit Organizations who thereby obtain substantial revenues for their charitable works.

The majority of these kiosks, which number 173, are operated by such organizations.

Sponsorship Programs

Among the events sponsored under this program were eight family cycling tours, eleven foot races on the Mini Loto Circuit, an important championship meet held in Victoriaville and the Québec Games at Val d'Or.

Moreover, through its active involvement in important regional festivals (Beauce, Matane, Trois-Rivières, etc.) and through its participation in numerous large-scale events (the Tour de l'Île de Montréal, the Festi-

val of Montgolfières of Haut-Richelieu, the Bal de Neige in Hull, etc.), the Loto-Québec sponsorship program directly affected more than 75,000 spectators and participants from some 65 cities and towns in all regions of the Province.

The service also lent its support to some thirty-eight folk festivals.

Loto-Québec Art Collections

Now in its tenth year, the Loto-Québec Collection of original engravings, a unique promotional medium for the art of engraving in the Province, has crowned two more prize winners with publication awards of \$9,000.00 each and has published their works in art-book form; the Collection program has also collaborated on a new edition of the Québec Engravings Code of Ethics.

These art-books, distributed to distinguished personalities or during special functions, promote the reputation and recognition of our artists not only in Québec but also abroad.

Steadfast in its policy established in 1985, the Société has also committed some \$100,000.00 to the acquisition of original works by artists from all regions of Québec.

The programs of involvement with the arts in Québec were maintained and enhanced.

The Société has intensified its collaboration with regional centres of culture by organizing exhibitions of works from its Collections.



Directors' Report

The Board of Directors is responsible for the consolidated financial statements to the Shareholder. The responsibility for preparing them is delegated to General Management, while the Auditing Committee sees to revisions.

Management maintains a system of internal controls in order to present reliable financial statements. The Internal Auditing Service constantly oversees the smooth functioning of the system.

The consolidated financial statements are prepared according to generally accepted accounting principles which, in certain cases, call for judgments on the part of Management.

By law, the Auditor General of Québec is appointed as the auditor of the books and accounts of the Société.

The Auditing Committee and the Auditor General meet with Management to discuss questions pertaining to auditing and to consolidated financial statements. The President Director-General is ex-officio member of the Auditing Committee. The other members are not connected with the Société, except as administrators.

Upon recommendation of the Auditing Committee, the Board of Directors has approved the consolidated financial statements of the Société for the fiscal year ended at March 31, 1988.

David Clark
Francine Harel Giasson

Auditor's Report

I have examined the consolidated balance sheet of Loto-Québec as at March 31, 1988, the consolidated statement of earnings, the consolidated statement of retained earnings and the consolidated statement of changes in liquidities for the year ended at that date. My examination was carried out according to generally accepted accounting standards and, accordingly, included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of Loto-Québec as at March 31, 1988, the results of its operations and the changes in its financial position for the year ended at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhéal Chatelain
Auditor General of Quebec

Quebec, May the 13th, 1988

Consolidated Balance Sheet

As at March 31, 1988
Loto-Québec
(L.R.Q., c. S-13.1
and modifications)

Assets (in thousands of dollars)	1988	1987
Current		
Cash and term deposits	712	53,511
Advance to subsidiary Lotim Inc. (Note 3)	700	951
Receivables (Note 4)	20,628	13,531
Prepaid expenses	8,982	4,377
	31,022	72,370
Investment (Note 5)		
Wholly-owned subsidiary	-	-
Fixed assets (Note 6)	37,762	44,452
	68,784	116,822

Liabilities (in thousands of dollars)	1988	1987
Short term		
Bank loan	3,446	-
Prizes payable	7,310	4,029
Dividend to be paid to the Minister of Finance	-	41,000
Accounts payable and accrued liabilities	18,865	26,538
Unclaimed prizes (Note 7)	2,342	5,626
Deferred income - Lottery tickets	24,837	16,769
	56,800	93,962
Liabilities resulting from capital leases (Note 8)	788	1,714

Shareholder's Equity

Capital shares authorized, issued and paid:

1,700 shares with a par value of \$100 each	170	170
Retained earnings	11,026	20,976
	11,196	21,146
	68,784	116,822

Contingencies (Note 12)

On behalf of the Board of Directors
David Clark
Francine Harel Giasson

**Consolidated
Statement of
Retained
Earnings**

For the year ended March 31, 1988 <i>(in thousands of dollars)</i>	1988	1987
Balance at beginning of year	20,976	5,601
Net income	380,050	360,375
Dividend paid to the Minister of Finance	(390,000)	(345,000)
Balance at end of year	11,026	20,976

**Consolidated
Statement of
Earnings**

For the year ended March 31, 1988 <i>(in thousands of dollars)</i>	1988	1987
Sales - Lottery tickets	1,036,491	998,040
Cost of sales		
Prizes paid	477,784	460,311
Discounts to retailers	54,777	53,047
Printing of tickets	21,338	19,423
	553,899	532,781
Gross income	482,592	465,259
Operating expenses		
Advertising and communications	19,826	17,650
Distribution and sales	16,807	16,649
Data processing	22,754	23,646
Administration	16,508	17,475
Research and development	1,589	1,209
Depreciation of fixed assets	9,919	10,564
	87,403	87,193
Interest income - net (Note 9)	2,382	2,831
	85,021	84,362
Income before the following items	397,571	380,897
Payments to the Government of Canada further to its withdrawal from the conduct of lotteries (Note 10)	17,069	19,030
Special contributions	-	1,000
Special commissions to non-profit organizations (Note 11)	452	492
	17,521	20,522
Net income	380,050	360,375

Consolidated Statement of Changes in Liquidities

For the year ended March 31, 1988 (in thousands of dollars)	1988	1987
Operating activities		
Net income	380,050	360,375
Items not affecting liquidities		
Depreciation of fixed assets	9,919	10,564
Funds from operations	389,969	370,939
Changes in non liquid short-term assets and liabilities	(52,059)	13,023
Funds provided by operating activities	337,910	383,962
Financing activities		
Dividend paid to the Minister of Finance	(390,000)	(345,000)
Liabilities resulting from capital leases - net	(926)	(1,760)
Funds used for financing activities	(390,926)	(346,760)
Investment activities		
Acquisition of fixed assets	(3,322)	(5,283)
Acquisition of equipment under capital leases	-	(63)
Proceeds from disposal of equipment under capital leases	93	270
Funds used for investment activities	(3,229)	(5,076)
(Decrease) Increase of liquidities during the period	(56,245)	32,126
Balance at beginning of year	53,511	21,385
Balance at end of year	(2,734)	53,511

Loto-Québec's liquidities include cash and term deposits less the bank loan.

Complementary Notes

March 31, 1988

1. Statutes and Functions

La Société des loteries et courses du Québec, also designated as Loto-Québec, is a provincial crown corporation all of whose shares are held by the Government of Québec. According to its enabling Act, its function is to conduct and manage lottery systems and, if so authorized by the government, to hold races. In addition, and in return for considerations, the Société may offer consultation and implementation services in the areas of its competence.

2. Summary of Main Accounting Policies

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with generally accepted accounting principles, with the reasonable limits of their relative importance and within the framework of the following accounting principles.

Consolidation

The consolidated financial statements group the accounts of Loto-Québec with those of Lotim Inc., a wholly-owned subsidiary, as at December 31, 1987.

Fixed Assets

Fixed assets are presented at their original cost and are depreciated according to their estimated useful life, using the following straight-line method rates:

Building	2 %
Office Furniture	10 %
Equipment	33 1/3 % and 20 %
Leasehold improvements and outfitting	20 % et 10 %
Rolling stock	30 %

Capital Leases

The assets and liabilities accruing from capital leases are entered at the current value of payments to be made and are treated as an asset acquisition and loan. These assets are depreciated according to the same method utilized for other fixed assets.

The rents payable under operating lease contracts are carried under consolidated earnings.

Income

Gross income from the sale of lottery tickets is recorded as of the date of the draw, with the exception of income originating from instant lotteries which is entered at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, except for instant lotteries, are treated as deferred income; discounts to retailers on these sales are carried as prepaid expenses.

Prizes paid

In addition to cash prizes, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the price of sale and is entered under Sales as Income and under Prizes paid as Expenses.

3. Advance to Subsidiary – Lotim Inc.

An advance made to this wholly-owned subsidiary from January 1st, 1988 to March 31, 1988 (in 1987: from January 1st 1987 to March 31, 1987).

4. Receivables

(in thousands of dollars)	1988	1987
Retailers	3,639	4,312
Wholesalers	12,094	3,256
Interprovincial Lottery Corporation	4,312	5,069
Miscellaneous	583	894
	20,628	13,531

5. Investment

As at March 31, 1987, Loto-Québec held all the capital shares of S.O.D.I.C. Québec Inc., that is one share with a par value of \$10. In August 1987, this share was sold to the Minister of Agriculture, Fisheries and Food, for an amount equal to its par value.

6. Fixed Assets

(in thousands of dollars)			1988	1987
	Cost	Accum. Depreciation	Net	Net
Land	3,103	—	3,103	2,709
Building	18,274	1,427	16,847	17,172
Leasehold improvements and outfitting	11,702	4,337	7,365	6,832
Equipment	51,955	45,318	6,637	12,184
Office furniture and rolling stock	4,991	2,524	2,467	2,801
	90,025	53,606	36,419	41,698
Leaseholdings under capital leases:				
Data processing equipment	6,312	4,969	1,343	2,754
	96,337	58,575	37,762	44,452

7. Unclaimed Prizes

Unclaimed prizes from the Mini Loto, Inter Loto and Sélect 42 are entered under a provision for their subsequent distribution as bonus prizes.

Further to the withdrawal of the 6/36 during the year, the unclaimed prizes recorded to the provision were transferred to the earnings. Any claim occurring subsequently will be charged to the cost of sales at the time of the payment.

8. Liabilities resulting from Capital Leases

<i>(in thousands of dollars)</i>	1988	1987
Liabilities resulting from capital leases, with rates varying from 14% to 22%, maturing until 1991	1,638	3,312
Payments maturing within one year (included under accounts payable and accrued liabilities)	850	1,598
	788	1,714

The following table specifies the minimum payments to be made in pursuance of liabilities resulting from capital leases:

<i>(in thousands of dollars)</i>	
1989	1,046
1990	813
1991	44
Total minimum payments	1,903
Amount of interest included in the minimum payments	265
	1,638

9. Interest Income – Net

<i>(in thousands of dollars)</i>	1988	1987
Interest on current investments	2,767	3,524
Less: Interest resulting from capital leases	385	693
	2,382	2,831

10. Payments to the Government of Canada further to its withdrawal from the conduct of lotteries

Under an agreement between the Provincial Governments and the Federal Government concerning the latter's withdrawal from the conduct of lotteries, the Provinces annually remit to the Federal Government the sum of 24 millions dollars, in 1979 dollars. Moreover, under a second agreement, retroactive to 1985, the Provinces also turn over to the Federal Government an additional sum of 100 million dollars, distributed over the next three years. This second agreement ended on December 31, 1987.

The Quebec Government's share is payable by Loto-Québec according to an agreement concluded between the Provinces and the regional lottery corporations. Loto-Québec will turn over approximately 11 million dollars as its contribution for the year 1988-1989.

11. Special Commissions to Non-Profit Organizations

Further to a decision by the Société's sole Shareholder, a commission equal to the discount allotted to retailers is awarded to non-profit organizations engaged in the selling of lottery tickets through the "LOTOMATIQUE" subscription system.

12. Contingencies

Lease

Under a lease agreement expiring in 2003, the Société is committed to paying a minimum of \$54,419,724 for the rental of premises occupied by its Head Office in a building held in joint tenancy with Immeubles Cadimont Inc.

Rental expenditures for the year ended March 31, 1988 are \$3,637,378 (in 1987: \$3,401,233). The consolidated rental expenditures are \$1,818,689.

The minimum annual rental payment for each of the next five fiscal years is fixed at \$3,401,233.

On-line lottery network

During the period under review, the Government authorized Loto-Québec to upgrade its computerized games hardware and to equip itself with an alternate processing facility in the amount of \$50,600,000. As at March 31, the Société had concluded agreements totalling \$26,560,814 for these projects.

Comparative Summary of Earnings

The comparative statements of earnings for the past six years attest to the continuing growth of the Société and to the considerable sums it has turned over to the Government, to the benefit of all Quebecers.

Consolidated Earnings

(in thousands of dollars)

	1988	1987	1986	1985	1984	1983
Sales - Lottery Tickets	1,036,491	998,040	883,121	741,102	662,177	541,411
Cost of sales						
Prizes paid	477,784	460,311	409,753	342,086	304,682	252,592
Discounts to retailers	54,777	53,047	48,049	40,973	37,518	31,207
Printing of tickets	21,338	19,423	18,757	17,454	17,306	16,961
	553,899	532,781	476,559	400,513	359,506	300,760
Gross income	482,592	465,259	406,562	340,589	302,671	240,651
Operating costs						
Advertising and communication	19,826	17,650	17,630	16,079	15,020	15,260
Distribution and sales	16,807	16,649	16,025	16,759	16,867	16,117
Data processing	22,754	23,646	23,102	20,216	16,635	22,262
Administration	16,508	17,475	17,802	18,014	14,327	11,113
Research and development	1,589	1,209	947	608	-	-
Depreciation of fixed assets	9,919	10,564	10,119	8,256	8,318	5,818
	87,403	87,193	85,625	79,932	71,167	70,570
Interest income - net	2,382	2,831	3,035	2,131	1,276	2,576
	85,021	84,362	82,590	77,801	69,891	67,994
Income before the following items	397,571	380,897	323,972	262,788	232,780	172,657
Payments to the Government of Canada further to its withdrawal from the conduct of lotteries	17,069	19,030	20,797	9,468	9,217	8,965
Special contribution to event: Rendez-vous 87		1,000				
Special commissions to non-profit organizations	452	492	504	401	443	277
	17,521	20,522	21,301	9,869	9,660	9,242
Net income	380,050	360,375	302,671	252,919	223,120	163,415

Subsidiaries Lotim Inc.

A wholly-owned subsidiary of Loto-Québec

Lotim Inc. manages Loto-Québec's holdings in the building located at 500 Sherbrooke Street West; this building, which houses Loto-Québec's Head Office, was purchased jointly, in 1983, with a subsidiary of La Caisse de dépôt et placement du Québec.

The fiscal year just ended was highlighted by the signing of a new administrative agreement with La Société Immobilière Trans-Québec and by several turning points in the operations of 500 WEST.

The Entrance hall of 500 WEST was redecorated as part of a renovations program aimed at enhancing the luster of the building and maintaining a high standard of services to its occupants.

As at March 31, the office occupancy rate of the building was at 97%, surpassing the objectives set by

its owners, while commercial facilities, at the same date, were occupied at a rate of 90%.

Fiscal 1987, before financing and depreciation, ended with an operational profit of \$4,191,478. for the owners of 500 WEST, with \$2,095,379. going to Lotim Inc. as its share. The increase is attributable to the additional revenues generated by optimizing office occupancy and other service areas (parking, etc.). The operational profit for the preceding fiscal year was \$2,791,247. for the owners, with \$1,395,624. going to Lotim Inc.

The financial statements of Lotim Inc. for the twelve-month period ended December 31, 1987, have been consolidated with those of Loto-Québec.

Sodic Québec Inc.

On August 26, 1987, Loto-Québec was empowered by the Government to transfer to the Department of Agriculture, Fisheries and Food the capital share and equity holdings in this wholly-owned subsidiary.

Loto-Québec

For the Fiscal Year
April 1, 1987
to March 31, 1988.

Board of Directors

- * David Clark
President and
Director-General
- Benoit G. Côté
- * Francine Harel Giasson, Ph.D.
- * Socrates Goulakos, c.a.
Bernard Grégoire Jr.
Marcel Jobin
Donald W. McNaughton

Secretary
Marguerite Bourgeois

- * Members of the Audit
Committee

Management Committee

This Committee consists of the President, the Vice-Presidents and the Directors of the President's Office and Human Resources.

General Management

Manager of the President's Office

Pierre l'Archevêque
Assistant to the President

Manager of Human Resources

Joanne Drapeau

Labour Relations Department
Personnel Department
Development of Human
Resources Department
Physical Security,
Health and Safety
Department

Manager of Internal Auditing

Jacques Dubois

Vice-President, General Management

Denis Vandry

Vice-President, Corporate Affairs

Marguerite Bourgeois

Director of Public Affairs

Michel Labrosse

Planning Department
Legal Department

Vice-President, New Markets

Roger Bertrand

Manager, Development

Vincent Trudel

Vice-President, Systems

Gaston Thibault

Manager, Games Systems
Robert Durocher

**Manager, Management
Systems**
Jean-Marie Dumont

**Manager, Systems
Operations**
Manon Derome

Quality-Control and Security
Department
Information Management
Department

Vice-President, Lotteries

Claude Trudel

**Manager, Finances
& Physical Resources**
Gilles Dubé

**Manager, Sales
& Distribution**
Simon Brodeur

Manager, Marketing
Robert Ayotte

**Manager, Games-Network
Processing**
Rosaire Bachand

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Sainte-Foy G1N 2G3
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